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August 23, 1996

HAND DELIVERY

Ms Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

RE Docket No. ~~81-1178~~
Application of GULF UTILITY COMPANY for
an increase in Wastewater Rates, approval of a decrease in
Water Rates and approval of Service Availability Charges in Lee
County, Florida

Dear Ms. Bayo

Attached are an original and fifteen copies of a letter to Mr. Charles Hill, including schedules in response to Mr. Hill's letter of August 12, 1996. The attached letter from Ms. Carolyn Andrews, Chief Financial Officer of Gulf Utility Company explains their response to the letter.

Please acknowledge receipt of the foregoing by stamping the enclosed extra copy of this letter and returning same to my attention.

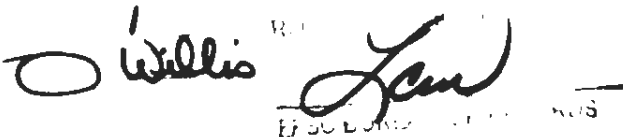
Very truly yours,



B. Kenneth Gatlin

BKG/met
Enclosures

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Willis
Lee

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Gulf Utility Company

19910 S. Tamiami Trail
P.O. Box 350
Tampa, FL 33628-0350
407-498-1000

August 22, 1996

Mr. Charles Hill
Director
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

RE: Docket No. 960329-WS, Application For Increased Water and Wastewater Rates and For a Change In Service Availability Charges by Gulf Utility Company in Lee County

Dear Mr. Hill:

Outlined below is additional information requested on August 12, 1996, regarding Gulf's minimum filing requirements submitted on June 27, 1996.

Item 1. The budget assumptions for Notes 4 and 12 of Schedule B-3 are insufficient in that a more substantive description should be provided.

Response:

The 1994 budget for Materials & Supplies (Note 4) was based on both historic usage adjusted for customer growth and on an analysis of project requirements. Detailed descriptions are included on Page 1 of attached Appendix C.

The 1996 budget for Miscellaneous Expenses-general (Note 12) was projected by analyzing historic costs and adjusting for anticipated conditions. Detailed descriptions are included on Page 2 of attached Appendix C. Items listed under heading "Amortization" on Schedule B-3 Page 6 Note 12 are accumulated expenses required by regulatory agencies which are amortized over the lives of the permits.

Respondent: Brook Rivers

Item 2. Additionally, Notes 8 and 9 should contain a more substantive description of how the utility arrived at those itemized/budgeted numbers.

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Response:

The 1996 budget for Contractual Services-Other (Note 8) was also projected by analyzing historic costs using present rates and adjusted for anticipated conditions. Detailed descriptions are included on Page 3 of Appendix C.

Note 9-Rental of Building/Real Property expense was based on the Lease Agreement dated November 8, 1995 for the Administrative Office building. The annual rental is \$47,172.00, based on 3,931 square feet, plus 6% sales tax of \$2,830.32. Additionally, a fee of \$9,827.52 is paid for reimbursement of operating expenses. The total cost for Rental of Building is \$59,829.84.

Respondent: Brook Rivers

Item 3. Rule 25-30.437(3), Florida Administrative Code, requires that, if a projected test year is used, a schedule should be provided which describes in detail all methods and basis of projection, explaining the justification for each method or basis employed. For the following accounts, the supporting projection methodologies were not provided:

- (a) All Current Asset accounts
- (b) All Deferred Debit accounts
- (c) Common Equity
- (b) Bonds
- (e) All Current and Accrued Liability Accounts
- (f) CIAC
- (g) Prepaid CIAC

Response:

- (a) All Current Asset accounts

1. Cash-Gulf's 1996 projected cash flow analysis was used to calculate cash balances for projected 1996.

2. Accounts Receivable-Gulf's service area has more customers in residence between October and April of each year, accounts receivable balances are higher during October-May as a result. During the wet season, June through September the customer usage decreases as does the customer accounts receivable. Allowance was made for customer growth, but since Gulf implemented a customer ACH bank deduction plan in August 1996, we are encouraging new customers and current customers to use this program, favorably effecting Gulf's cash flow. Historical trends were also used as added information in projecting accounts receivable balances in 1996.

3. Notes and Accounts Receivable-Associated Companies-
The balance of \$718 for January is the actual amount Caloosa Group, Inc. owed Gulf as of January 31, 1996. This amount includes diesel-\$19.00; Grainger for lamps-\$22.39; and Heston Fielding Insurance-\$618.00.

4. Prepayments-Includes \$14,573 prepaid insurance and \$28,957 in prepaid taxes at December 31, 1995. Liability, vehicle, machinery and equipment insurance premiums are paid in thirds, Nov.15, Dec.15, and Jan 15. Prepaid insurance is amortized over the twelve month period January 1996 through December 1996.

5. Materials and Supplies-A physical inventory of water and wastewater chemicals is taken the last day of each month. Costs are calculated on a first in-first out basis. Usage and purchase reports are compared to accounting purchases and reviewed and reconciled by accounting staff each month.

6. Miscellaneous Current and Accrued Asset-Accrued interest due from IDRFB Funds and Appropriated Funds during the projected year 1996.

(b) All Deferred Debit Accounts

1. Unamortized Debt Discount and Expense-Remaining unamortized debt cost associated with issuance of the 1988 A and 1988 B Industrial Revenue Bonds which is being written off over the life of the bonds.

2. Preliminary Survey and Investigation-This account has a sub-account for each developer payment for legal and engineering fees experienced by the Utility associated with each development. This account balance does not fluctuate generally. Once a development is accepted, and Gulf has paid all associated professional fees, the developer receives a check if a credit balance remains or is charged if a debit amount remains in their subaccount. A detailed record is kept of all Utility expenses associated with each development.

3. Clearing Account-A payment paid by the utility is held in suspense waiting a decision on the outcome of the purpose of the transaction.

4. Deferred rate case cost-See B-10 Page 1 of 1 for detail of Gulf's projected rate case costs for this filing.

5. Other Misc. Deferred Debits-A list of Deferred Debits is included in Schedule F-11 of the 1995 Annual Report. These Regulatory Required Treatment Plant Operating permits are amortized over their useful lives. All of these accounts have been audited by Kathy Welch and noted in the recent Overearnings Audit Report prepared by Ms. Welch.

6. Accumulated Deferred Income Taxes-See page F-1 (b) of the 1995 Annual Report, these taxes are to record deferred taxes under SFAS109, primarily due to CIAC and depreciation.

(c) Common Equity-Capital issued is \$416.00. Additional paid in capital is in the form of paid in cash and dedication of assets to the Utility. Retained earnings was calculated using income/loss from the 1996 projected income statements.

(d) Bonds-\$9,775,000 is the remaining balance of the 1988 A & 1988 B Bond after annual redemptions. The 1988 A Series will be reduced by \$80,000 and the 1988 B Series will be reduced by \$25,000 on October 1, 1996. See Page F-16 of the 1995 Annual Report for interest rates and balances at 12/31/95; Series A-9.25% and 9.62%; Series B-9.5%.

(e) All Current and Accrued Liability Accounts

1. Accounts Payable and Accounts Payable Florida Gulf Coast University are projected using the construction draw schedules provided by State and Gulf's engineers.

2. Notes and Accounts Payable Associated Companies-This account is a remaining balance of a note payable to Russell B. Newton, Jr. a shareholder of Gulf Utility Company and Caloosa Group, Inc., \$75,360.00. The original of this note is in Gulf's Administrative Office. The interest rate is prime + 2.5%, information on the note is found on Page F-13 of the Annual Report. The interest is paid monthly and maturity is on demand. The origination date of the original note was April 9, 1985.

3. Customer Deposits-Past historical data was used to project customer deposits. The residential annual rate for residential deposits is 6% and 7% for general service customers.

4. Accrued taxes-See page F-17 of the Annual Report for an analysis of accrued taxes at December 25, 1996. Regulatory assessment fees are accrued at 4.5% of revenues. Property taxes are accrued based on past tax bills and past tax increases. Payroll taxes are accrued for the remainder of the current month, paid the following month. Standard payroll tax rates were used.

Projected payroll for each month of 1996 is also accrued when unpaid at the end of a month.

5. Accrued Interest-Page F-18 gives a detail of the accrued interest payable at December 31, 1996. Interest due Russell B. Newton, Jr. is accrued each month and paid the beginning of the following month. The interest on the IDRB Bonds accrued is monthly and paid April 1 and October 1 each year. Customer deposit interest is accrued each month and is credited to closed accounts and applied to active accounts with deposits over 6 months old each August. Kathy Welch examined the bond documents during her audit.

(f) and (g) CIAC and Prepaid Connections-CIAC is booked when a prepaid connection or payment of the appropriate connection fees is collected and a customer connects to Gulf's water and sewer system. CIAC is also added when developers dedicate water and/or sewer systems to the Utility. A schedule prepared by a member of Gulf's staff, who assists developers through the utility development process, was used to determine when prepaid connections would be paid by developers and when developments would be completed.

Respondent: Carolyn Andrews

Item 4. Referring to Schedule E-13, pages 1-4 in the MFRs, provide supporting schedules or documentation which explains how the consumption projection factor was calculated for each class of service.

Response:

Item 4 refers to consumption projection factor, which relate to Column 5 of E-13. Referring to residential service on page 1 of 4 of E-13, the mechanics of the computation in column 5 is as follows:

Column 4-1995 Consumption	482,396
Column 6-1996 Consumption	<u>512,943</u>
Column 5=Column 6 divided by Column 4	1.063

Column 4 is the 1995 consumption as recorded on the books and records of the Company. The 1996 consumption shown in Column 6 was explained in detail on pages 17 and 18 of Cardey's testimony. Attached as Appendix A is a copy of the Company's working papers developing the 1996 consumption for the classes of service shown on E-13.

The consumption factor for each of the classes of service shown on E-13 is as follows:

<u>CLASS OF SERVICE</u>	<u>CONSUMPTION</u>		FACTOR 1996/1995
	1995 COLUMN	1996 COLUMN	
Residential	482,398	512,943	1.063
Commercial	42,425	43,941	1.036
Multi-Family	67,361	71,548	1.062
Irrigation	1,170	1,245	1.064
Public Authority	14,513	14,513	1.000
Temporary Const.	583	583	1.000
Private Fire Prot.			
Fla. Gulf Coast Univ. (a)		15,000	

(a) new construction

The customers added in 1996, by month, as shown in Appendix B.

Item 5. Referring to the same Schedule B-13, pages 1-4 in the MFRs, provide the projection factor used to calculate projected test year bills along with supporting schedules or documentation as to how this projection factor compares was calculated. Explain any difference in growth in growth percentage as this projection factor compares with actual growth (in ERC's) as represented on Schedules F-9 and F-10

Response:

A summary of the growth in customers by classes of service is shown in the table on page 17 of Cardey's testimony. In Appendix B attached are working papers showing the monthly additions of customers, again by classes of service, supporting the above table.

The growth in residential service is the Company's estimate based upon the contacts with housing developers in the area. The growth in commercial customers is based on outstanding contracts primarily with a shopping center scheduled for completion in 1996. The increase in multi-family customers is based upon contacts with developers and their scheduled completion dates.

The last sentence of Item 5, requests a comparison of the ERCs growth in B-13 and that shown in F-9 and F-10. The method of determining ERCs is the same in both schedules with the 1996 ERCs for all customers, except Florida Gulf Coast University, shown in Appendix B. The Company expects increased growth in customer in the next new years.

Charles H. Hill, Director
Florida Public Service Commission
Page 7

At the end of 1995 the Company had 20 developer agreements. In addition, Florida Gulf Coast University is under construction as well as two developments of regional impact (DRI's) which will have 2,341 units plus 34,500 s.f. of clubhouse/retail space at buildout. In addition, several additional DRI's appear to be nearing the point where construction and services are imminent.

Because of all of this construction activity in the Company's service area, the last 5 years average growth shown on F-9 and F-10, is not representative of the growth expected in the future. In addition to the increase in residential and commercial customers, 1996 was unusual because of the addition of two large customers, namely Florida Gulf Coast University with 183 ERCs for water and 209 ERC's for wastewater, and a shopping center with 96 ERCs for water and 128 ERCs for wastewater.

As stated on Page 2 lines 17 and 18, of Mr. Moore's testimony "In Gulf's service area, growth has been 5-6-7% per year and we expect that level of growth in the near future," and then went on to outline the construction program to meet that growth.

Respondent: Keith Cardey

Should you have further questions, please contact me at (941) 498-1000.

Sincerely,



Carolyn B. Andrews
Chief Financial Officer

GULF UTILITY COMPANY
CALCULATION OF 1996 CONSUMPTION
FOR SCHEDULE E-13
WATER

APPENDIX A

CALCULATION OF 1996 CONSUMPTION
FOR SCHEDULE E-13
WATER

	(A) 1995 # Bills	(B) 1995 # Gallons	(C) Average Gallons	(D) 1996 Customers Add'l bills	(E) @ 1/1/96	(F) 1996 # Bills	(G) 1996 # Gallons
						(E*12)+D	F*C
Residential							
5/8"	76873	481,429	6.26	2969	6578	81,905	512,943
3/4"	36	557	15.47		3	36	557
1"	24	412	17.17		2	24	412
					<u>6583</u>	Total	512,943
Commercial							
5/8"	1111	9,216	8.30	2	97	1166	9,672
1"	302	6,743	22.33	4	28	316	7,056
1 1/2"	96	4,170	43.44		8	96	4,170
2"	60	4,973	82.88		5	60	4,973
3"	0	0		6		6	747
4"	24	17,323	721.79		2	24	17,323
					<u>138</u>	Total	43,941
Multi-family							
5/8"	48	519	10.81	9	4	57	56
1"	584	10,645	18.23		50	600	10,937
1 1/2"	148	3,652	24.68		16	192	4,738
2"	122	12,502	102.48	5	11	137	14,039
3"	24	12,523	521.79		2	24	12,523
4"	24	12,906	537.75		2	24	12,906
6"	12	14,614	1,217.83		1	12	14,614
8"	0				1	12	1,735
					<u>87</u>	Total	71,548
Irrigation							
5/8"	132	828	6.27		12	144	903
1"	24	341	14.21		2	24	341
1 1/2"	12	1	0.08		1	12	1
					<u>15</u>	Total	1,245
Public Authority							
1"	24	257	10.71		2	24	257
2"	60	3,472	57.87		5	60	3,472
3"	24	3,313	138.04		2	24	3,313
4"	36	7,471	207.53		3	36	7,471
					<u>12</u>	Total	14,513
Temporary Construction							
5/8"	10	4	0.40		2	24	10
2"	48	579	11.82		5	60	709
						Total	719
Private Fire Protection							
1"	26	0	0.00		2	24	0
4"	84	0	0.00	3	7	87	0
6"	60	0	0.00		5	60	0
8"	96	0	0.00	1	8	97	0
					<u>22</u>	Total	0

**CALCULATION OF 1996 CONSUMPTION
FOR SCHEDULE E-13
SEWER**

	(A) 1995 # Bills	(B) 1995 # Gallons	(C) Average Gallons	(D) 1996 Customers Add'l bills	(E) Customers @ 1/1/96	(F) 1996 # Bills (E*12)+D	(G) 1996 # Gallons F*C
Residential							
5/8"	24390	116672	4.78	2165	2134	27773	132,855
					2134	Total	132,855
Commercial							
5/8"	736	4767	6.48	74	66	866	5,609
1"	143	3436	24.03	4	13	160	3,844
1 1/2"	72	3423	47.54		6	72	3,423
2"	96	6732	70.13		8	96	6,732
3"	0	0		6	0	6	583
					93	Total	20,192
Multi-family							
5/8"				9	0	9	43
1"	476	6502	13.66		41	492	6,721
1 1/2"	84	1335	15.89		10	120	1,907
2"	86	5010	58.26	5	8	101	5,884
6"	12	14614	1,217.83		1	12	14,614
6"	0				1	12	1,735
					61	Total	30,904
Public Authority							
1"	12	56	4.67		1	12	56
2"	25	1433	57.32		3	36	2,064
3"	12	1078	89.83		1	12	1,078
4"	24	4039	168.29		2	24	4,039
					7	Total	7,237
Influent							
3"	36	18256	507.11		3	36	18,256
4"	12	10799	899.92		1	12	10,799
					4	Total	29,055

GULF UTILITY COMPANY
METER INSTALLATIONS - WATER
1996

APPENDIX "B"

Schedule of Meter Installations - Water (A)
1996

Number of meters added by month

Month	Residential	Commercial*	Multi-Family*	Public Authority	Irrigation	Total
January	28					28
February	22					22
March	58					58
April	36					36
May	37					37
June	44					44
July	44					44
August	44					44
September	45	1	1			47
October	48		2			48
November	37		2			39
December	27	8				35
Total	488	9	5	0	0	480

*Commercial
2 ea 5/8"
1 ea 1"
6 ea 3"

Multi-Family
3 ea 5/8"
2 ea 2"

ERCs

	Quantity	Factor	ERC
Residential 5/8"	488	1	488
Commercial 5/8"	2	1.5	3
1"	1	3.0	4
3"	8	18.0	96
Multi-Family 5/8"	3	1.7	8
2"	2	16.4	33
			607

(A) Excludes Florida Gulf Coast University

GULF UTILITY COMPANY

**DETAILED DESCRIPTIONS
SCHEDULE B-3 NOTES**

APPENDIX C

Line Note 4 - Materials & Supplies

No.		
1	CUSTOMER SERVICE & ADMIN & GENERAL	
2	Office & computer supplies	\$ 7,388
3	Postage	10,328
4	Bills, brochures, etc.	7,517
5	Total	<u>\$ 34,827</u>
6	Water 66%	22,884
7	Sewer 34%	11,773
8	WATER	
9	Treatment - Operations:	
10	Lab reagents & supplies	\$ 3,280
11	Flow charts & pens	500
12	Distilled water	150
13	Cartridge filters	4,828
14	Testing equip., supplies	1,500
15	Keys & locks	200
16	Safety equip	650
17	Total	<u>\$ 11,078</u>
18		
19	Treatment - Maintenance:	
20	Supplies - brushes, nets, hoses, nuts, bolts, nail, cleaning supplies	\$ 9,681
22	Pipe, fittings, glue to repair chemical lines	4,000
23	Electrical parts	2,500
24	Parts to repair motors	1,500
25	Parts to repair generators	2,500
26	Chemical pump parts	1,500
27	Replace hats & shirts	215
28	Lawn maint. materials	990
30	Insect repellent, weed killer	482
31	Hand cleaner	68
32	Parts to repair John Deere tractor	528
33	Total	<u>\$ 23,942</u>
34		
35	Transmission & Distribution:	
36	Pipe, couplings, tubing, fittings to repair service leaks & main breaks	\$ 7,850
38	Replacement meter boxes & lids	584
39	Locks for meters	165 68
40	Paint, flags	182
41	Total	<u>\$ 8,681</u>
42	Sub-total	\$ 43,908
43	66% Admin & General	22,884 Line 6
44	TOTAL WATER	<u>\$ 66,762</u>

SEWER

Collection		
Supplies	\$	485
Total	\$	485
Treatment & Disposal Operations		
Charts & pens	\$	2,200
Reagents, lab supplies		3,000
Ice for samples		1,000
Total	\$	7,200
Treatment & Disposal Maintenance		
Supplies, nets, hoses, pipe, fittings, cleaning supplies, general	\$	4,839
Repair parts for pumps		2,500
Filters, belts		1,500
Replace hats & shirts		111
Lawn maint. materials		510
Insect repellent, weed killer		238
Hand cleaner		34
Parts to repair John Deere tractor		272
Total	\$	10,003
Sub total	\$	17,688
34% Admin & General		11,773 Line 7
TOTAL SEWER	\$	<u>29,461</u>

GULF UTILITY COMPANY

Line Note 12 - Miscellaneous Expenses

No			
1	General		
2	Director's Fees - Three directors paid \$4,500 quarterly	\$	18,000
3	Education & Awards:		
4	Operators training & exams	\$ 3,500	
5	Backflow prevention training	750	
6	Cust Svc & Admin seminars	1,250	
7	Telemetry, electrical maint. training	2,000	
8	Accident-free Safety Awards	2,900	
9	Total Education & Awards		10,400
10	Dues, etc..		
11	NAWC dues	2,711	
12	FWWA dues	10,000	
13	AWWA dues	200	
14	Professional publications	700	
15	Safety Council membership	175	
16	Rotary dues	235	
17	Sara Title IV registration	280	
18	Cust Svc Questionnaire mailing	3,200	
19	Total Dues, etc.		17,481
20	Travel & meetings:		
21	Travel & expenses - President	6,500	
22	Travel & expenses - Vice President	3,000	
23	Employee summer outing	2,200	
24	Safety meetings	470	
25	Computer Users' conference	1,800	
26	Total Travel & meetings		13,970
27	Maint. Assessment - Three Oaks Pkwy		3,068
28	Miscellaneous:		
30	Unanticipated expenses	4,000	
31	Holiday party & gift certificates	3,700	
32	Flowers for illness/family death	150	
33	Safety Certification	200	
34	FWWA luncheons	300	
35	Total Miscellaneous		8,350
36	TOTAL GENERAL MISC EXPENSE	\$	71,269
37		66% Water	\$ 47,051
38		34% Sewer	\$ 24,238

Line Note 8 - Contractual Service - Other

Line No.	Description			
1	Customer Service &			
2	Admin & General			
3	Cleaning & pest control	\$	6,668	
4	Garbage disposal		2,953	
5	Computer & copier maint		16,500	
6	Telephone service		13,450	
7	Miscellaneous:			
8	Trustee fees	\$	3,200	
9	Drug screens		620	
10	Overnight delivery		620	
11	Cable TV service		767	
12	Electronic fund transmits		1,050	
13	Annual report reproduction		185	
14	Total Miscellaneous		<u>6,342</u>	
15	Total General Contractual Services - other	\$	<u>45,913</u>	
16		66% Water	30,302	
17		34% Sewer	15,611	
18				
			WATER	SEWER
19	Source of Supply:			
20	Repair routine & wellhouse	\$	7,000	\$
21	Treatment - Operations:			
22	Analysis		3,987	30,200
23	Telemetry & computer maintenance		2,000	
24	Meter calibrations & testing		6,756	3,284
25	Generator maintenance		4,046	2,084
26	Answering service & beepers		2,114	1,089
27	Uniform service		5,974	3,077
28	Unanticipated expense		660	340
30	Employment ads		1,485	755
31	Cellular phone service		1,482	745
32	Pre-employment checks		428	220
33	Service respirators		132	68
34	Immunizations & tires		185	95
35	Total Treatment - Operations	\$	<u>29,218</u>	\$
36	Treatment - Maintenance:			
37	Pulling well pumps		6,000	
38	Rebuild plant motors		7,200	7,200
39	Pond cleaning		16,000	
40	Welding		231	119
41	Mower & trimmer repair		264	136
42	Recharge fire extinguishers		196	102
43	Waste oil recovery		142	73
44	Chlorinator repair		691	459
45	Service air conditioners		132	68
46	Sewer line clean out			400
46	Lift station grease hauling			3,400
49	Video & repair sewer lines			2,800
50	Lift stations coating & repairs			21,000
51	Total Treatment - Maintenance	\$	<u>31,058</u>	\$
52	Transmission & Distribution:			
53	Road & sidewalk repair due to main breaks		6,800	
54	Total Transmission & Distribution	\$	<u>6,800</u>	
55	Sub - Total	\$	73,776	\$
56	Admin & Gen. Cust Svc		30,302	15,611
57	Total Contractual Svc	\$	<u>104,078</u>	\$